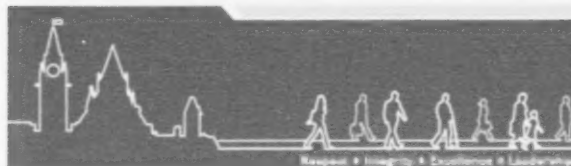




Public Works and
Government Services
Canada

Travaux publics et
Services gouvernementaux
Canada

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Serving
GOVERNMENT.
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CANADIANS.

PUBLIC WORKS AND GOVERNMENT SERVICES CANADA

QUARTERLY FINANCIAL REPORT

For the quarter ended June 30, 2013

1. Introduction

This Quarterly Financial Report should be read in conjunction with the *Main Estimates, Supplementary Estimates*, and *Canada's Economic Action Plan (Budgets 2013, 2012 and 2011)*. It has been prepared by management as required by section 65.1 of the *Financial Administration Act* and in the form and manner prescribed by the Treasury Board Accounting Standard 1.3. It has not been subject to an external audit or review.

1.1 Authority, Mandate and Program Alignment Architecture

Public Works and Government Services Canada (PWGSC) plays an important role in the daily operations of the Government of Canada. The Department is its principal treasurer, accountant, central purchasing agent, linguistic authority, and real property manager. The department's vision is to excel in government operations, and its mission is to deliver high-quality services and programs that meet the needs of federal organizations and ensure sound stewardship on behalf of Canadians.

The Department, founded in 1841, was instrumental in the building of our nation's canals, roads and bridges, the Houses of Parliament, post offices and federal buildings across the country. Today, PWGSC has evolved into a sophisticated operational arm of government that employs approximately 12,200 people working in locations across Canada, with its Headquarters in the National Capital Area. PWGSC:

- Injects more than \$14 billion annually into the Canadian economy through government procurement;
- Handles over \$2 trillion in cash flow transactions through the Receiver General function;
- Issues more than 14.2 million federal pay and pension payments;
- Provides accommodation to parliamentarians and more than 270,455 public servants in 1,796 locations across Canada;
- Provides translation and interpretation services, annually, for more than 1,700 parliamentary sittings and parliamentary committee meetings, and translates more than one million pages of text on behalf of other federal organizations; and
- Processes and images more than 20 million pages, annually, for federal government departments and agencies.

Further details on PWGSC's authority, mandate and programs may be found in the *Report on Plans and Priorities*.

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting also known as modified-cash accounting, and a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities. The accompanying *Statement of Authorities* compares PWGSC's spending authorities granted by Parliament to those used by the Department. Information in the Statement of Authorities is consistent with that in the *Main Estimates*.

The authority of Parliament is required before monies can be spent by the government. Approvals are given in the form of annually approved limits through appropriation acts or through legislation granting statutory spending authority for specific purposes.

PWGSC uses the full accrual method of accounting to prepare and present its annual Consolidated Departmental Financial Statements that are published in the *Departmental Performance Report*. However, the spending authorities voted by Parliament remain on a modified cash basis of accounting.

As part of the Parliamentary business of supply, the Main Estimates must be tabled in Parliament on or before March 1 preceding the new fiscal year. Budget 2012 was tabled in Parliament on March 29, 2012, after the tabling of the Main Estimates on February 28, 2012. As a result, the measures announced in Budget 2012 could not be reflected in the 2012-13 Main Estimates.

In fiscal year 2012-13, frozen allotments were established by Treasury Board authority in departmental votes to prohibit the spending of funds already identified as savings measures in Budget 2012. In 2013-14, the changes to departmental authorities were reflected in the 2013-14 Main Estimates tabled in Parliament.

1.3 PWGSC's Financial Structure

PWGSC provides services to many government departments, agencies and Crown corporations through a variety of funding mechanisms. This includes budgetary authorities that are comprised of voted and statutory authorities, as well as non-budgetary authorities. The voted budgetary authorities include Operating Expenditures, Vote-Netted Revenues and Capital Expenditures, while the statutory authorities are mainly comprised of Revolving Funds, the Employee Benefit Plan and Payments in Lieu of Taxes (PILT). The non-budgetary authorities consist primarily of the Seized Property Working Capital Account.

PWGSC's complex financial structure may result in significant differences on a quarterly basis which are due to timing and are resolved by year end. These are summarized as follows:

- For the most part, PWGSC delivers its services on a cost recovery basis, generating revenues via Revolving Fund ("the Funds") organizations and programs within the Operating Vote. These organizations and programs are mainly designed to provide services to other government departments, and are expected to recover the cost of their operations through revenues. However, the costs incurred by the Funds are usually disbursed prior to invoicing the client, which generally occurs upon completion of a project or services rendered, and thus revenues may be collected in a subsequent quarter.
- In addition, PWGSC manages a variety of real property projects that progress through phases from planning to funding and from procurement to construction. Historical trends have shown that expenditures against these projects are not incurred evenly throughout the year; thus, quarter-to-quarter fluctuations are normal.
- PILT issued by PWGSC are funded through a statutory vote and paid on behalf of other participating federal departments. Payments are subsequently recovered from the participating departments and are recorded as statutory grants in the Public Accounts of Canada. A variation in the "Payment in lieu of taxes to municipalities and other taxing authorities" account can occur due to a difference between the time a payment is made and the time it is recovered from another department.
- PWGSC also manages seized property for the Government of Canada pursuant to the *Seized Property Management Act*. The financial management of this activity is performed through the non-budgetary Seized Property Working Capital Account. Charged to this account are expenditures and advances made to maintain and manage any seized or restrained property. PWGSC recovers its costs from this Account once the property owner loses the right to the property and it is disposed of.

2. Highlights of Fiscal Quarter and Fiscal Year-to-Date (YTD) Results

2.1 Significant changes to authorities

When compared to the same quarter in the previous year, PWGSC's **Authorities Available for Use increased by \$17.7 million** (2012-13: \$2,601.8 million; 2013-14: \$2,619.5 million) as reflected in the *Statement of Authorities* (Table 1, page 8). Major reasons for the increase are outlined below:

Year-Over-Year Variances in Authorities Available for Use

(in millions of dollars)	Operating	Capital	Contribution	Budgetary Statutory Authorities	Total Variances
Purchase of Terrasses de la Chaudière	(11.8)	61.7			49.9
Transformation of Pay Administration	30.6	(1.8)		3.5	32.3
RCMP E Division Headquarters	5.3	26.0			31.3
Rehabilitation of the Parliamentary Precinct	(2.8)	16.3			13.5
Accommodation	8.2				8.2
Canadian Innovation Commercialization Program (CICP)	(22.1)			(0.1)	(22.2)
Deficit Reduction Action Plan	(22.3)		(4.9)	(0.9)	(28.1)
Strategic Review	(34.6)	(32.0)			(66.6)
Other	(33.7)	6.0	(0.6)	27.7	(0.6)
CUMULATIVE VARIANCE IN AUTHORITIES AVAILABLE FOR USE	(83.2)	76.2	(5.5)	30.2	17.7

Note: Groupings can change between quarters due to materiality of initiatives

The **net increase of \$17.7 million** can be explained by:

Terrasses de la Chaudière - increase of \$49.9 million

This one-time funding is to purchase a key building complex, Les Terrasses de la Chaudière, in Gatineau, Québec. This is not a new space as the federal government already occupies the entire complex. During the initial construction, the Government of Canada had entered into a long-term lease-purchase agreement. By exercising the purchase option, the government is leveraging equity built up over three decades through lease payments and capital improvements.

Transformation of Pay Administration Initiative – increase of \$32.3 million

The seven-year program of work under the Transformation of Pay Administration Initiative is to support the continued implementation of the Consolidation of Pay Services in Miramichi, New Brunswick, and the modernization of the 40 year old pay system. This planned funding is to hire, relocate, train and accommodate compensation employees in 2013-14. The initiative is on time and on budget.

RCMP E Division Headquarters – increase of \$31.3 million

This transfer of funding from the Royal Canadian Mounted Police (RCMP) to PWGSC is to cover costs related to the construction and operations of the RCMP E Division Headquarters in Surrey, British Columbia. This new Government of Canada facility was completed on time, on budget, and on scope through a Public-Private Partnership (P3).

Rehabilitation of the Parliamentary Precinct - increase of \$13.5 million

This funding is to continue the implementation of the Long Term Vision and Plan (LTVP), to ensure preservation of the Parliament Buildings as heritage assets and national symbols in accordance with the approved five-year program of work which began in 2010-11. The projects for LTVP are on time and on budget.

Accommodation - increase of \$8.2 million

As the federal government's primary common service provider, PWGSC provides accommodation for government departments and agencies. This funding is mainly for 2013-14 accommodation requirements of various government departments and agencies to meet their program objectives.

Canadian Innovation Commercialization Program (CICP) - decrease of \$22.2 million

The CICP connects small and medium-sized enterprises with federal departments and agencies that have a need for innovative products and services. The decrease is attributed to the termination of the two-year pilot phase of CICP announced in Budget 2010. Budget 2012 committed \$95 million to this program over three years and \$40 million permanently per year thereafter and now includes a military procurement component.

Deficit Reduction Action Plan – decrease of \$28.1 million

In accordance with Budget 2012, PWGSC realized additional savings in 2013-14 mainly attributed to:

- Space recapture and space modernization;
- Leveraging technology; streamlining internal departmental operations; and improving efficiency in government operations; and
- Sunsetting of the Canadian Language Sector Enhancement Program.

Strategic Review - decrease of \$66.6 million

In accordance with Budget 2011, PWGSC realized additional savings in 2013-14 mainly due to the:

- Implementation of more cost effective accommodation solutions in the National Capital Area; and
- Expansion of the use of electronic banking; procurement modernization; standardization of desktop computing; and elimination of duplication and overlap of administrative support functions.

Other - decrease of \$0.6 million

This net decrease of \$0.6 million is the result of funding variances in miscellaneous projects and activities (Operating), such as transfers to other government departments. It also includes a \$19 million permanent transfer from Operating to Budgetary Statutory Authorities to normalize the treatment of Employee Benefit Plan in the real property portfolio.

2.2 Significant changes to Net Expenditures

As presented in the *Departmental Budgetary Expenditures by Standard Object* (Table 2, page 10), the **Total Net Budgetary Expenditures have increased by \$76.5 million** when compared to the same quarter of the previous year (2012-13: \$823.9 million; 2013-14: \$900.4 million).

The proportion of planned and actual expenditures in each major expenditure category is consistent with the previous year. Overall, the expended portion represents 34% of annual planned expenditures for 2013-14, while it represented 32% during the first quarter of 2012-13.

Year-Over-Year Variances in Expenditures

(in millions of dollars)	2013-14 Year to date used at quarter end	2012-13 Year to date used at quarter end	Year Over Year Variance
Personnel	293.4	267.9	25.5
Acquisition of Land, Buildings & Works	95.0	47.5	47.5
Transfer Payments	208.3	229.8	(21.5)
Total Revenues Netted Against Expenditures	(448.2)	(480.0)	31.8
Other Expenditures	751.9	758.7	(6.8)
Total Net Budgetary Expenditures	900.4	823.9	76.5

The net increase of \$76.5 million is mainly attributable to:

Personnel – increase of \$25.5 million

- Severance payments paid out to employees in the first quarter of 2013-14, due to ratified changes to some collective agreements. Eligible employees could opt for a one-time payout of their accumulated severance pay.

Acquisition of Land, Buildings & Works – increase of \$47.5 million

- Mainly due to the purchase of Terrasses de la Chaudière, a key building complex in Gatineau, QC.

Transfer Payments – decrease of \$21.5 million

- Timing differences between when a Payment in Lieu of Taxes is made and when the recovery is made from other government departments (see Section 1.3 for additional information); and
- Sunsetting of the Canadian Language Sector Enhancement Program in March 2013.

Total Revenues Netted Against Expenditures – increase of \$31.8 million

- Timing difference in the billing cycle between 2012-13 and 2013-14.

Other Expenditures – decrease of \$6.8 million

- Completion of various major projects, including projects for Correctional Services Canada and the RCMP H Division in Nova Scotia.

3. Risks and Uncertainties

PWGSC integrates risk management principles into business planning, decision-making and organizational processes to minimize negative impacts and maximize opportunities across our diverse range of services and operations. Risk management is carried out through PWGSC in accordance with the TBS Framework for the Management of Risk.

The following key risks were identified as having a potential financial impact:

- PWGSC's reliance on cost recovery from other government departments poses risks in an environment of reduced expenditures on the part of client departments. To mitigate this risk, PWGSC has strengthened its governance of its savings commitments and is working closely with other departments through its client service network to identify these changing requirements and the impact on PWGSC. Thus far, the impact on revenues has been manageable.
- Risks associated with major, complex, transformational or interdepartmental projects. In order to address these risks, PWGSC has implemented disciplined investment and project management processes; established service agreements and service standards with clear identification of responsibilities; ensured sound contract management; engaged early with client departments and other stakeholders; and developed the Departmental Integrated Investment Plan (IIP).

4. Significant Changes to Operations, Personnel and Programs

Subsequent to the end of the first quarter and effective July 15, 2013, the Prime Minister appointed a new Minister for PWGSC.

5. Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 that are being implemented in order to refocus government and programs; make it easier for Canadians and business to deal with their government; and modernize and reduce the back office functions.

PWGSC is committed to achieving Budget 2012 cumulative and ongoing savings of \$177.6 million by 2018-19. Savings of \$1.5 million were achieved in 2012-13. For 2013-14, PWGSC is on target to achieve savings of \$28.1 million; savings will increase to \$85.3 million in 2014-15 and \$114.2 million in 2015-16. These savings support fiscal responsibility and a more effective use of departmental resources.

While many of the savings will be achieved this fiscal year and next, the real property initiatives will be introduced over the next six years as leases and occupancy agreements expire. With these changes, and building on progress made in recent years, PWGSC is transforming to better serve its clients through enhanced efficiency and effectiveness, and sound and robust management.

The savings initiatives for 2013-14 are in the following areas:

1. **Accommodation and Real Property Services:** Contributing to a more affordable public service by reducing office accommodation costs. This will be achieved by working with departments to **recapture real property office space** in response to reduced accommodation needs. PWGSC has also developed **new real property space standards** consistent with leading practices, resulting in a reduction in the total amount of space for government office facilities by approximately 10%.
2. **Internal Services:** Achieving savings by concentrating on core functions, streamlining processes and eliminating redundancies and overlap, thereby ensuring value for taxpayer money. Savings will be achieved by:
 - Reductions in internal overhead and information technology (IT) applications;
 - Rationalizing redundant print services;
 - Modernizing IT infrastructure to reduce costs; and
 - Wind down of Investigations and Litigation Office.
3. **Specialized Programs and Services:** Achieved by optimizing interdepartmental coordination on Greening Government Operations and sunsetting the Canadian Language Sector Enhancement Program.

Approved by:

Michelle d'Auray, Deputy Minister
Public Works and Government Services Canada

Gatineau, Canada
August 29, 2013

Alex Lakroni, Chief Financial Officer
Public Works and Government Services Canada

Gatineau, Canada
August 29, 2013

Table 1 - STATEMENT OF AUTHORITIES (unaudited)

For the quarter ended June 30, 2013

	Fiscal year 2013-2014			Fiscal year 2012-2013		
	Total available for use for the year ending March 31, 2014 1) 2) 4) 5)	Used during the quarter ended June 30, 2013	Year to date used at quarter end	Total available for use for the year ending March 31, 2013 1) 2) 3)	Used during the quarter ended June 30, 2012	Year to date used at quarter end
<i>(In thousands of dollars)</i>						
Vote 1						
Gross Operating Expenditures	3,269,323	740,402	740,402	3,205,261	712,590	712,590
Vote-Netted Revenues	(1,363,767)	(255,930)	(255,930)	(1,216,499)	(277,792)	(277,792)
Net Operating Expenditures	1,905,556	484,472	484,472	1,988,762	434,798	434,798
Vote 5 - Capital Expenditure	573,196	118,082	118,082	496,992	61,407	61,407
Vote 10 - Contribution Expenditures ⁴⁾	-	-	-	5,497	1,436	1,436
Revolving Fund Authorities						
Real Property Services Revolving Fund						
Gross Expenditures	1,613,309	200,990	200,990	1,790,019	231,098	231,098
Revenues	(1,603,309)	(146,893)	(146,893)	(1,780,019)	(157,191)	(157,191)
Net Expenditures	10,000	54,097	54,097	10,000	73,907	73,907
Translation Bureau Revolving Fund						
Gross Expenditures	183,268	40,802	40,802	198,344	37,181	37,181
Revenues	(176,246)	(31,462)	(31,462)	(191,184)	(31,528)	(31,528)
Net Expenditures	7,022	9,340	9,340	7,160	5,653	5,653
Optional Services Revolving Fund						
Gross Expenditures	143,244	11,312	11,312	104,826	8,243	8,243
Revenues	(134,760)	(13,904)	(13,904)	(99,826)	(9,223)	(9,223)
Net Expenditures	8,484	(2,592)	(2,592)	5,000	(980)	(980)
Real Property Disposition Revolving Fund ⁵⁾						
Gross Expenditures	-	-	-	7,293	318	318
Revenues	-	-	-	(12,000)	(4,216)	(4,216)
Net Expenditures	-	-	-	(4,707)	(3,898)	(3,898)
Total of All Revolving Funds						
Gross Expenditures	1,939,821	253,105	253,105	2,100,482	276,840	276,840
Revenues	(1,914,315)	(192,260)	(192,260)	(2,083,029)	(202,158)	(202,158)
Total Revolving Fund Net Expenditures	25,506	60,845	60,845	17,453	74,682	74,682

Table 1 – STATEMENT OF AUTHORITIES - CONTINUED (unaudited)

For the quarter ended June 30, 2013

	Fiscal year 2013-2014			Fiscal year 2012-2013		
	Total available for use for the year ending March 31, 2014 1) 2) 4) 5)	Used during the quarter ended June 30, 2013	Year to date used at quarter end	Total available for use for the year ending March 31, 2013 1) 2) 3)	Used during the quarter ended June 30, 2012	Year to date used at quarter end
<i>(In thousands of dollars)</i>						
Other Budgetary Statutory Authorities						
Contributions to employee benefit plans	114,739	28,685	28,685	92,625	23,157	23,157
Minister of PWGSC Salary and motor car allowance	79	13	13	78	19	19
Refunds of amounts credited to revenues in previous years	-	-	-	46	46	46
Spending of proceeds from the disposal of surplus Crown assets	419	26	26	335	3	3
Payment in lieu of taxes to municipalities and other taxing authorities ²⁾	-	208,309	208,309	-	228,348	228,348
Total Other Budgetary Statutory Authorities	115,237	237,033	237,033	93,084	251,573	251,573
Total budgetary authorities	2,619,495	900,432	900,432	2,601,788	823,896	823,896
Non-Budgetary Authority						
Seized Property Working Capital Account	-	(3,870)	(3,870)	-	(133)	(133)
TOTAL AUTHORITIES	2,619,495	896,562	896,562	2,601,788	823,763	823,763

Notes:

1) Includes only Authorities available for use and granted by Parliament at quarter-end.

2) Consistent with the presentation in the Main Estimates, Total available for use for the year, for both 2012-13 and 2013-14, under Payment in Lieu of Taxes (PILT), is presented net of planned PILT made to municipalities and the equivalent planned recoveries from other government departments. A description of PILT is provided in Section 1.3 of this report.

3) Total available for use does not reflect measures announced in Budget 2012.

4) The program under Contribution Expenditures (Canadian Language Sector Enhancement Program) ended in 2012-13.

5) The Real Property Disposition Revolving Fund closed as of the end of 2012-13.

Net increase of \$17.7 million

Table 2 – DEPARTMENTAL BUDGETARY EXPENDITURES BY STANDARD OBJECT (unaudited)

For the quarter ended June 30, 2013

	Fiscal year 2013-2014			Fiscal year 2012-2013		
	Planned expenditures for the year ending March 31, 2014 1) 2)	Expended during the quarter ended June 30, 2013	Year to date used at quarter end	Planned expenditures for the year ending March 31, 2013 1) 2) 3)	Expended during the quarter ended June 30, 2012	Year to date used at quarter end
<i>(in thousands of dollars)</i>						
Expenditures						
Personnel	1,145,220	293,360	293,360	1,027,938	267,930	267,930
Transportation and communications	95,014	17,406	17,406	90,026	17,741	17,741
Information	10,795	1,801	1,801	12,846	1,411	1,411
Professional and special services	1,499,007	168,976	168,976	1,446,759	159,028	159,028
Rentals	999,325	302,993	302,993	971,257	310,824	310,824
Repair and maintenance	1,100,803	131,107	131,107	1,233,849	141,974	141,974
Utilities, materials and supplies	239,597	27,387	27,387	213,495	28,465	28,465
Acquisition of land, buildings and works	216,034	95,010	95,010	233,911	47,471	47,471
Acquisition of machinery and equipment	77,072	2,310	2,310	80,663	2,958	2,958
Transfer payments ²⁾	-	208,309	208,309	5,497	229,784	229,784
Other subsidies and payments	514,710	99,963	99,963	585,075	96,260	96,260
Total gross budgetary expenditures	5,897,577	1,348,622	1,348,622	5,901,316	1,303,846	1,303,846
Less revenues netted against expenditures						
Revolving Funds Revenues	(1,914,315)	(192,260)	(192,260)	(2,083,029)	(202,158)	(202,158)
Vote-Netted Revenues	(1,363,767)	(255,930)	(255,930)	(1,216,499)	(277,792)	(277,792)
Total revenues netted against expenditures	(3,278,082)	(448,190)	(448,190)	(3,299,528)	(479,950)	(479,950)
TOTAL NET BUDGETARY EXPENDITURES	2,619,495	900,432	900,432	2,601,788	823,896	823,896

Notes:

1) Includes only Authorities available for use and granted by Parliament at quarter-end.

2) Consistent with the presentation in the Main Estimates, Planned expenditures for the year for both 2012-13 and 2013-14, under Transfer Payments, are presented net of planned Payments in Lieu of Taxes (PILT) made to municipalities and the equivalent planned recoveries from other government departments. A description of PILT is provided in Section 1.3 of this report.

3) Planned expenditures do not reflect measures announced in Budget 2012.

Net increase of \$76.5 million